

Message Text

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R 051810Z JUL 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9921
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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USEEC AND USOECD ALSO FOR EMBASSIES
DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(JUNE 27 - JULY 4)

REF: BONN 12006

SUBJECTS COVERED:

COMMENT ON BREMEN SUMMIT; TAX DEBATE WAXES; INDUSTRIAL
PRODUCTION AND ORDERS DECLINE IN MAY; FOREIGN EXCHANGE
MARKETS (TABLE); MONEY MARKET (TABLE); MONEY SUPPLY
(TABLE); BUNDESBANK FOREIGN POSITION; BANK LIQUIDITY;
BOND MARKET (TABLE); FOREIGN DM BONDS; INFLATION RATE
CONTINUES ITS DOWNWARD TREND; ECONOMIC INDICATORS
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PUBLISHED THIS WEEK (TABLE).

1. COMMENT ON BREMEN SUMMIT: MONETARY UNION
PRESS SPECULATION ON THE BREMEN SUMMIT HAS BEEN FAIRLY
HEAVY WITH EMPHASIS ON THE PROS AND CONS OF THE VARIOUS
MEASURES WHICH ARE REPORTEDLY UNDER CONSIDERATION IN
MONETARY UNION DISCUSSIONS.

SAVINGS BANK COOPERATIVE PRESIDENT GEIGER, ADDRESSING JOURNALISTS IN BONN SAID THAT HE HOPES THAT NO SPECTACULAR DECISIONS ARE REACHED IN BREMEN.

ALTHOUGH GEIGER SAID THAT IT WOULD CERTAINLY BE POSSIBLE TO ENLARGE THE SNAKE UNDER PROPER CONDITIONS OF DOMESTIC POLICY HARMONIZATION, HE WARNED AGAINST ESTABLISHMENT OF A MECHANISM WHICH WOULD ARTIFICIALLY PEG EUROPEAN CURRENCIES VIS A VIS THE DOLLAR. THIS WOULD INTENSIFY INFLATIONARY PRESSURES IN EUROPE, HE SAID, AND THUS WOULD COUNTER THE PURPOSE OF MONETARY UNION. FURTHERMORE, GEIGER CONTINUED, SUCH MEASURES WOULD BE A TYPE OF PROTECTIONISM, AS THEY DISTORT VALUES OF CURRENCIES IN THE EXCHANGE MARKETS WHICH COULD PROMPT OTHERS TO REACT WITH REGULATIONS OF THEIR OWN.

GERMAN COMMERCIAL BANKS, THROUGH THEIR ASSOCIATION, ALSO LET THEIR SKEPTICISM BE KNOWN. THE BANKS BELIEVE THAT STABILITY IN FOREX MARKETS CANNOT BE ASSURED BY CONTINUOUS CENTRAL BANK INTERVENTIONS OR ADDITIONAL CREDIT INSTRUMENTS WHICH, IN ADDITION, WOULD RESULT IN GREATER DIFFICULTY IN CONTROLLING THE DOMESTIC MONEY SUPPLY AND INCREASED INTERNATIONAL LIQUIDITY. CURRENCY STABILITY IN EUROPE, THE ASSOCIATION SPOKESMAN ADDED, CAN ONLY BE DEVELOPED ON THE FOUNDATION OF PRICE STABILITY.

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A EDITORIAL IN THE JULY 5, "DIE WELT", ARGUES THAT THE MOTIVATION BEHIND TALKS OF MONETARY UNION DERIVES FROM SCHMIDT AND GISCARD'S SHARING THE POLITICAL AIM OF MOVING EUROPE AWAY FROM AMERICA. THEY ARE READY TO FLEX THEIR MUSCLES, THE EDITORIAL CONTINUES, WITH MONETARY POLICY AS THE CENTERPIECE IN THE FRENCH/GERMAN STRATEGY AND AN ENLARGED FIXED EXCHANGE RATE ZONE AS THE VEHICLE. IT WAS POINTED OUT THAT THE ECONOMIC COSTS OF SUCH A SYSTEM WOULD BE HEAVY, BOTH IN TERMS OF CONTRIBUTIONS

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REQUIRED FOR INTERVENTION PURPOSES AND DUE TO THE
INCREASED POTENTIAL FOR INFLATION. ALSO, BRITISH AND
ITALIAN ECONOMIC POLICIES WOULD HAVE TO CHANGE MARKEDLY
TO ACHIEVE ANY DEGREE OF HARMONIZATION. IN THE AUTHOR'S
JUDGMENT, THE ITALIANS AND BRITISH ARE NOT READY TO GO
ALONG.

A NUMBER OF OTHER ARTICLES APPEARED INCLUDING A
FRANKFURTER ALLGEMEINE REPORT DATED, MADRID, JULY 2,
IN WHICH GISCARD DENIED THAT THE FRANC WOULD BE AGAIN
IN THE SNAKE. HE SAID NEW MECHANISMS WOULD BE REQUIRED
BUT ADDED THAT HE REMAINS SOLIDLY BEHIND THE CONCEPT
OF EXCHANGE RATE STABILITY IN EUROPE.

2. TAX DEBATE WAXES:

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THE MOST CONTROVERSIAL POLITICAL ISSUE OF THE WEEK HAS
BEEN TAX CUTS AND TAX REFORM -- WHEN AND HOW MUCH. THE
LATEST DEVELOPMENT WAS AN ENDORSEMENT OF TAX REDUCTIONS
BY EIGHT OF THE ELEVEN LAENDER FINANCE MINISTERS. A
WELT AM SONNTAG SURVEY SHOWED THE STATE FINANCE HEADS
ADVOCATING PRIORITY ACTION ON PAYROLL AND INCOME TAX
REDUCTIONS. THEY ALSO CALLED FOR AN EASING OF GOVERN-
MENTAL REGULATIONS WHICH ACT AS DISINCENTIVES ON INVEST-
MENT. IN AN APPARENT EFFORT TO CALM THE CONTROVERSY

STIRRED UP BY HIS REMARKS IN WASHINGTON ABOUT A DM 12 BILLION TAX CUT, ECONOMICS MINISTER LAMBSDORFF IS QUOTED BY DIE WELT ON JULY 4 AS SAYING THAT THE CHANCELLOR IS "COMPLETELY FREE" TO NEGOTIATE A TAX STIMULATION PACKAGE AT THE ECONOMIC SUMMIT. SPD CHAIRMAN WILLI BRANDT AND THE FDP PARTY PRESIDUM HAVE ISSUED STATEMENTS IN RECENT DAYS STRESSING THE POINT THAT THE COALITION WOULD WORK OUT MUTUAL DIFFERENCES OVER TAX POLICY.

3. INDUSTRIAL PRODUCTION AND ORDERS DECLINE IN MAY:

THE FEDERAL STATISTICAL OFFICE REPORTS THAT NEW INDUSTRIA ORDERS (SEASONALLY ADJUSTED BASIS) DECLINED BY ALMOST 1 1/2 PERCENT IN MAY. DOMESTIC ORDERS WERE DOWN BY 2 1/2 PERCENT WHILE FOREIGN ORDERS ROSE BY 1 1/2 PERCENT OVER THE APRIL LEVEL. AFTER A SHARP UPTURN IN APRIL, THE VALUE OF INDUSTRIAL PRODUCTION (SEASONALLY ADJUSTED) DECLINED IN MAY BY ABOUT 1 1/2 PERCENT. THE ECONOMICS MINISTRY REPORTS THAT ALMOST ALL IMPORTANT BRANCHES OF INDUSTRY CONTRIBUTED TO THE DECLINE. THE MINISTRY CAUTIONS, HOWEVER, THAT THE MAY FIGURES ARE SUBJECT TO REVISION.

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4. FOREIGN EXCHANGE MARKETS:

THE DOLLAR WEAKENED ON FRANKFURT CURRENCY EXCHANGE. FOR THE PERIOD JUNE 27 - JULY 5, FRANKFURT SPOT AND FORWARD DOLLAR RATES WERE AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS	
	(IN DM PER \$1.--)			(IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
	-----	-----	-----	-----	-----
JUNE 27	2.0810	2.0801	2.0795	-4.9	-5.4
28	2.0710	2.0714	2.0742	-4.3	-5.2
29	2.0780	2.0786	2.0750	-4.7	-5.2
30	2.0750	2.0753	2.0650	-5.1	-5.3
JULY 3	2.0740	2.0682	2.0650	-5.3	-5.3
4	2.0600	2.0509	2.0450	-5.0	-5.5
5	2.0475	2.0528	N.A.	N.A.	N.A.

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5. MONEY MARKET:

THE DM 3 BILLION INCREASE IN BANKS' REDISCOUNT QUOTAS (REPORTED BONN 12006) THUS FAR HAS HAD NO EFFECT ON GERMAN MONEY MARKET RATES. TIGHT CONDITIONS WERE EVIDENT AGAIN IN THE PAST WEEK AS CALL MONEY RATES REMAINED ABOVE THE 3.5 PERCENT LOMBARD LENDING RATE. FOR THE PERIOD UNDER REVIEW, FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
	-----	-----	-----
JUNE 27	3.50-3.60	3.60	3.70
28	3.50-3.60	3.60	3.70
29	3.50-3.60	3.60	3.70
30	3.50-3.60	3.60	3.70

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JULY 3	3.50-3.60	3.60	3.70
4	3.50-3.55	3.60	3.70

6. MONEY SUPPLY:

IN MAY, BOTH ON A SEASONALLY ADJUSTED AND NON-ADJUSTED

BASIS, MONETARY EXPANSION REMAINED HIGH. (APRIL DATA, HOWEVER, WERE REVISED DOWNWARD SUBSTANTIALLY -- SEE TABLE BELOW). THE INDIVIDUAL MONETARY AGGREGATES DEVELOPED AS FOLLOWS (CHANGES IN DM BILLION -- FOR MAY DEVELOPMENTS OF CENTRAL BANK MONEY SEE BONN 11818):

SEASONALLY ADJUSTED

1977
4TH Q
(MONTHLY JAN. FEB. MARCH APRIL MAY P/
AVERAGE) OLD REVISED

M 1	0.6	10.8	1.6	0.8	2.0	1.4	1.8
M 2	3.5	4.1	0.5	-0.8	4.0	2.6	1.9
M 3	5.1	5.7	1.8	0.3	5.6	4.2	3.5

SEASONALLY NON-ADJUSTED

M 1	5.0	-6.2	1.2	1.2	4.2	3.7	4.3
M 2	11.1	-16.2	0.2	-4.8	6.9	5.6	6.9
M 3	14.9	-11.8	0.7	-6.3	7.2	5.9	7.2

P/ PRELIMINARY

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IN MAY, THE INDIVIDUAL COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS (SEASONALLY NON-ADJUSTED, CHANGES IN DM BILLION):

	APRIL	MAY
	1978	1977 1978
	----	----

I. LENDING TO DOMESTIC NON-BANKS 7.2 4.2 9.8

FROM BUNDESBANK 0.1 1.7 1.3

FROM COMMERCIAL BANKS 7.1 2.5 8.6

TO PUBLIC SECTOR 1.5 -1.6 0.8

TO PRIVATE SECTOR 5.6 4.1 7.7

II. NET EXTERNAL POSITION OF

BUNDESBANK AND COMMERCIAL

BANKS -3.2 0.2 -0.5

III. LONG-TERM BANK DEPOSITS

AND OUTSTANDING BANK

BONDS (1) 3.1 2.5 4.2

IV. OFFICIAL ASSETS HELD AT

CENTRAL BANK	-6.0	-3.4	-2.0
V. OTHER	1.0	-2.0	-0.1
VI. M 3 (2) (EQUALS I PLUS II			
MINUS III MINUS IV MINUS V)	5.9	7.3	7.2
VII. M 2 (M 3 MINUS SAVINGS			
DEPOSITS)	5.6	7.1	6.9
VIII. M 1 (M 2 MINUS TIME			
DEPOSITS)	3.7	4.4	4.3

(1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATU-
RITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH
PERIOD OF NOTICE, AND BONDS HELD BY BANKS.

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(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPO-
SITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS
WITH 3-MONTH PERIOD OF NOTICE.

7. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD JUNE 16 - 23 THE BUNDESBANK'S NET
FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 88.1
BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 42

MILLION AND FOREIGN LIABILITIES BY ABOUT DM 80 MILLION.
 GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 67
 MILLION, SDR HOLDINGS BY DM 38 MILLION AND CREDITS
 GRANTED IN CONNECTION WITH THE EC MEDIUM-TERM MONETARY
 ASSISTANCE BY DM 255 MILLION. THE LATTER REFLECTED
 CONTINUED REPAYMENT OF THE GERMAN SHARE IN THE \$1.4
 BILLION LOAN GRANTED BY THE EC TO ITALY IN DECEMBER
 1974. ITALY HAS ANNOUNCED THAT IT WILL REPAY THE
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REMAINING DM 510 MILLION OF THIS LOAN AHEAD OF SCHEDULE.

8. BANK LIQUIDITY:
 DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY
 DM 4.9 BILLION. THE BASIC FACTOR REDUCING LIQUIDITY
 WERE RECEIPTS FROM THE MAJOR MID-JUNE TAX DATE WHICH
 INCREASED FEDERAL GOVERNMENT'S ASSETS BY DM 6.3
 BILLION TO DM 9.6 BILLION AND STATE GOVERNMENT ASSETS
 BY DM 2.8 BILLION TO DM 8.0 BILLION. OTHER FACTORS,
 NET, REDUCED LIQUIDITY BY DM 1.8 BILLION. LIQUIDITY
 WAS INCREASED BY DECLINES OF DM 4.0 BILLION IN THE
 BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND OF
 DM 1.5 BILLION IN CURRENCY IN CIRCULATION AS WELL AS
 BY BUNDESBANK PURCHASES OF BONDS (DM 0.3 BILLION) AND
 MONEY MARKET PAPER (DM 0.2 BILLION). ACCORDING TO
 BUNDESBANK PRESIDENT EMMINGER, IN THE FULL MONTH OF
 JUNE THE BUNDESBANK PURCHASED DOMESTIC BONDS OF DM 0.8
 BILLION INCREASING SUCH PURCHASES IN THE FIRST HALF OF
 THE YEAR TO DM 1.5 BILLION.

9. BOND MARKET:
 ON THE MARKET FOR DOMESTIC BONDS RECENT PRICE DECLINES
 CAME TO A HALT. ACCORDING TO THE PRESS, AVERAGE YIELDS
 OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING
 MATURITY WERE AS FOLLOWS:

REMAINING MATURITY							
(YEARS)	1	3	5	7	9	10	
	---	---	---	---	---	---	---
JUNE 30	4.25	5.55	5.95	6.25	6.45	6.50	
JUNE 23	4.25	5.55	5.85	6.25	6.45	6.50	

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ON JULY 5, BAVARIA OFFERED A DM 450 MILLION LOAN

(COUPON 6 PERCENT, ISSUE PRICE 98 1/2, MATURITY 10 YEARS,
YIELD TO MATURITY 6.21 PERCENT).

10. FOREIGN DM BONDS:

THE DM 20 MILLION PRIVATE PLACEMENT OF THE AUSTRIAN
INDUSTRIEVERWALTUNGS-A.G. CARRIES THE FOLLOWING CON-
DITIONS: COUPON 5 1/2 PERCENT, ISSUE PRICE 100, MATU-
RITY 7 YEARS. THE DM 150 MILLION CONVERTIBLE BOND
ISSUE OF THE JAPANESE FIRM, SANYO ELECTRIC CO., WILL
BE OFFERED AT A COUPON OF 3 1/2 PERCENT, AN
ISSUE PRICE OF 100 AND A MATURITY OF 10 YEARS. THE
JAPANESE DAISHOWA PAPER MANUFACTURING CO. WILL PRIVATE-
LY PLACE BONDS OF DM 20 MILLION CARRYING A COUPON OF
5 1/2 PERCENT, AN ISSUE PRICE OF 99 1/2 AND A MATURITY
OF 5 YEARS. JAPAN'S IZUMIYA CO. ALSO PLANS TO OFFER
CONVERTIBLE BONDS OF DM 50 MILLION. THE COUPON WILL
PROBABLY BE 3 3/4 PERCENT, THE MATURITY 8 YEARS. THE
RICOH CO., TOKYO, PLANS TO OFFER A LOAN OF DM 30
MILLION WITH A COUPON OF ABOUT 5 1/4 PERCENT, AN ISSUE
PRICE OF 99 AND A MATURITY OF 5 YEARS AND AN ADDITIONAL
DM 70 MILLION OF CONVERTIBLE BONDS PROBABLY CARRYING A
COUPON OF 3 1/2 PERCENT, AN ISSUE PRICE OF 100 AND A
MATURITY OF 8 YEARS. THE EUROPEAN COUNCIL WILL PLACE

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PRIVATELY BONDS OF DM 20 MILLION CARRYING A COUPON OF 6 1/4 PERCENT, A PROBABLE ISSUE PRICE OF 100 AND A MATURITY OF 8 YEARS. THE RELATIVELY LARGE NUMBER OF PRIVATE PLACEMENTS OF FOREIGN BORROWERS MAY BE ATTRIBUTABLE TO THE FACT THAT SUCH PLACEMENTS DO NOT REQUIRE THE APPROVAL OF THE SUB-COMMITTEE FOR FOREIGN DM BONDS OF THE GERMAN CENTRAL CAPITAL MARKET COMMITTEE.

11. INFLATION RATE CONTINUES ITS DOWNWARD COURSE: THE JUNE COL INDEX WAS UP BY ONLY 2.5 PERCENT OVER THE SAME MONTH OF LAST YEAR, ACCORDING TO THE FEDERAL STATISTICAL OFFICE. THE COMPARABLE FIGURE FOR MAY WAS 2.7 PERCENT. THE JUNE RATE WAS THE LOWEST SINCE DECEMBER 1969 WHEN THE COL INDEX STOOD 2.1 PERCENT ABOVE THE SAME MONTH OF 1968. THE CONSUMER PRICE INDEX HAS BEEN DECLINING FAIRLY STEADILY SINCE

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DECEMBER 1973 WHEN THE INDEX WAS UP BY 7.9 PERCENT OVER DECEMBER 1972.

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED DATA

	MARCH	APRIL	MAY	JUNE
CONSUMER PRICES 1/	3.1	2.9	2.7	2.5
IMPORT PRICES 1/, 2/	-7.6	-7.6	-6.4	-
EXPORT PRICES 1/, 2/	0.3	0.4	0.8	-
UNEMPLOYMENT				
THOUSANDS	1,099	1,000	913	877
PERCENT OF				
LABOR FORCE	4.9	4.4	4.0	3.9

1/ PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL.

2/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF GOODS. STOESEL

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Message Attributes

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